

Reported to the Director

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on Soviet Activity & World
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Soviet Economic Penetration

Issues of cold war cannot be expressed solely in economic terms. Soviet challenge today, as in past, embraces military, political and subversive arenas as well.

Military and para-military force, and threat of force, used often by Soviets in postwar period. Were Stalin's principal weapon. Used it to take over European Satellites and repress democratic governments. Threat of military force still holds these countries in Communist Bloc.

Iran, Greece, Berlin and Korea were all places where military action or threat of such action, was relied on to achieve Soviet aims.

As a nation, our response to military threats has always been rapid. Today, Soviet success with Sputniks and ballistic missiles has well alerted us to military danger. Our own missile and other hardware programs are receiving top priorities.

We must always be watchful of Soviet emphasis on military applications of science and technology. We must anticipate Soviet attempts to achieve a break through which would change balance of military power.

However, as I see it, USSR does not now intend to use military power in such a way as to risk general war. They have a healthy respect for our retaliatory capability.

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Barring major breakthrough on the military research front, most probable that fateful battles of cold war, in foreseeable future, will be fought in economic and subversive arenas.

Khrushchev approach more subtle than that of Stalin. Present emphasis on increased trade with Free World and credits to underdeveloped areas puts peaceful face on Russian bear. Constant stress by Soviet leaders on peaceful competition with the West, particularly the United States probably genuine, at least in part.

While keeping extent of own military effort hidden behind veil of secrecy, their propaganda keeps picturing United States as war-monger. Has some effect, the further men are geographically removed from Hungary. Khrushchev's remark, "To the slogan which says, 'let us arm,' we reply with the slogan, 'let us trade'."

In Soviet penetration of less developed countries, trade and subversion go together. However, Soviet aid of over \$2 billions in past three years not limited to countries where there is high probability of early acceptance of Communist doctrine.

Despite Nasser's repeated crackdowns on Communist elements in Egypt, and more recently within other nations, Soviets continue to deliver goods under \$175,000,000 development program signed last year. Current Nasser visit to Soviet Union could result in much more aid.

Some reduction in communist influence is true in Syria

since formation of United Arab Republic two months ago. However

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USSR goes ahead with \$170,000,000 economic aid program and \$100,000,000 additional arms agreement.

Many other examples. Afghanistan, for instance. Yemen is prime example of investment in disorder by Soviets sending arms and development aid. Already new incidents in Imam's dispute with the British and with local Sultanates over the borders of the Aden Protectorate. Yemen in a geographically strategic spot, controls one entrance to Suez Canal.

USSR government well set up to wage economic and political warfare. No budgetary controls when it comes to diverting funds to particularly urgent national policies. Can move quickly when they sense an opportunity. Only Battle Act is battle against free enterprise.

USSR has developed attractive package credit deal. Long-term loans, generally for 12 years; $2\frac{1}{2}$ per cent interest rates; repayment in surplus commodities, and room for bargaining on prices. Extensive language training for technicians sent abroad.

Other part of program is increased trade, not only in underdeveloped countries, but in Western Europe. About 70 per cent of USSR's increase in non-Bloc trade in 1957 was with industrial nations of Western Europe.

Continued expansion expected. Agreement between Germany and USSR reached a few days ago calls for a doubling of trade by 1960.

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Soviet capabilities to export petroleum and metals -- aluminum, tin, zinc and ferro-alloys -- is increasing. The USSR is already a supplier in a few traditional western metal markets. Over the years, the USSR may well become a major source of many such industrial necessities to Western Europe.

Their long-run petroleum development plans, Khrushchev's 1972 goals, point up the possibilities of such a development. By 1972, the Soviets could be exporting as much as 2 million barrels a day to Western Europe. A start has already been made on the pipeline that would bring the oil to the Baltic from the Ural-Volga basin.

Once Soviets have penetrated Western European markets to extent that these markets become substantially dependent on communist raw materials, they will have a formidable new weapon to wage economic warfare. By withholding supplies, by capriciously raising prices, or by dumping commodities the Soviets in effect will have a seat at council table of the great industrial nations of Europe.

Soviet economic base, upon which they are developing their economic penetration program, is growing rapidly. By 1962, total Soviet output expected to be 50 per cent of our own. Rate of growth about twice that of the U.S.

Means that trade and aid offensive is not a flash in the pan. Probably Soviets will increase their efforts, not diminish them.

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As this challenge is based largely on economic and industrial growth of Soviet Union, it is one which very directly concerns business leaders of our country.

This is not a task for government alone. It is by our business leaders recognizing the problem, properly analyzing it, and seizing time by the forelock, that the challenge can be met.

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